

THE OSHAWA GROUP LIMITED

ANNUAL REPORT for the fiscal year ended January 27, 1979

AR30





In the beginning . . .

Results in Brief

(in thousands of dollars)	January 27, 1979 (52 weeks)	January 28, 1978* (53 weeks)	% Increase (decrease)
Sales	\$1,336,784	\$1,205,805	10.9
Earnings Before Extraordinary Items	7,766	5,233	48.4
Earnings Per Share Before Extraordinary Items	1.15	0.78	47.4
Extraordinary Income	2,517	3,641	(30.9)
Net Earnings	10,283	8,874	15.9
Net Earnings Per Share	1.52	1.31	16.0
Dividends Paid Per Share	0.34	0.34	—
Number of Shares Outstanding	6,749,904	6,749,904	—

*restated

NUMBER OF STORES AT YEAR END

IGA Associates	359
Other Franchise Food Markets	561
Company-owned Food Markets	96
Non-affiliated Food Markets	1,379
Combination Food & Department Stores	2
Discount Department Stores	43
Drug Marts	15
Pharmacies	24
Health & Beauty Aid Stores	5
Restaurants & Snack Bars	70

La version en français de ce rapport
sera envoyée sur demande.

Contents

Results In Brief	1	Balance Sheet	18
Year In Review	2	Changes In Financial Position	20
10-Year Summary	7	Summary Of Accounting Policies	21
Canadian Operations	8	Notes	22
Oshawa Profile	9	Auditors' Report	24
Earnings	17	Directors, Management, Salient Data	25
Retained Earnings	17		

Year in Review

Earnings of The Oshawa Group Limited continued higher in 1978. All operating divisions contributed, general merchandise showing the largest gain. Financial position also improved significantly.

Sales

Consolidated sales of \$1,336,784,000 in the 52 weeks of 1978 were 10.9% higher than in the 53 weeks of 1977, with all divisions (except Model Laundry) recording increases.

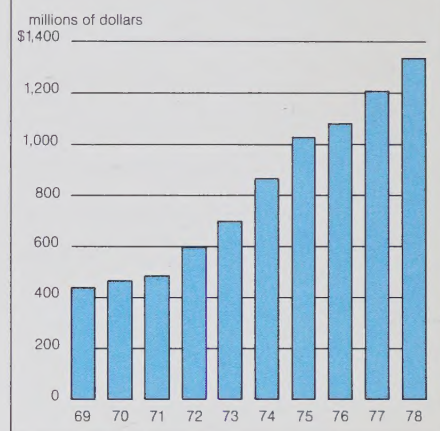
Sales by segment in thousands of dollars were:

	1978	1977	% change
Wholesale food	\$ 600,834	\$ 542,828	10.7
Retail food	375,222	334,913	12.0
Institutional	78,703	67,842	16.0
General merchandise	269,860	248,087	8.8
U.K. operations	12,165	12,135	.2
	\$1,336,784	\$1,205,805	10.9

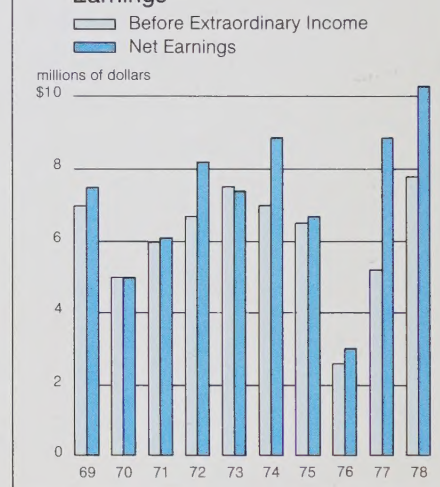
Sales by Division in thousands of dollars were:

	1978	1977	% change
Ontario Food Division	\$ 480,896	\$ 440,647	9.1
Hudon et Deaudelin Ltée	279,371	255,593	9.3
Bolands	70,163	62,603	12.1
Codville Distributors	176,055	148,560	18.5
Hickeson-Langs Supply Company	45,050	36,610	23.1
Langs Cold Storage	2,183	1,912	14.2
The Ontario Produce Company	36,329	34,135	6.4
Model Laundry	1,442	1,476	(2.3)
Towers Department Stores	234,017	214,888	8.9
Restaurants	8,137	7,905	2.9
Kent Drugs Limited	23,126	21,099	9.6
Gas Bars	4,580	4,195	9.2
Coinamatic Laundry Equipment Limited, U.K.	12,165	12,135	.2
Inter-divisional sales	(36,730)	(35,953)	
	\$1,336,784	\$1,205,805	10.9

Sales



Earnings



Sales gains in the food group were satisfactory despite strong competitive markets and changing buying patterns of consumers.

Ontario Food Division sales increase of 9.1 percent was higher than last year's 5.9 percent increase even with the shorter 52-week year (53 weeks in fiscal 1978).

The Hudon et Deaudelin Ltée sales increase of 9.3 percent was achieved even though supplying the chain customer referred to last year was unprofitable and discontinued.

Bolands sales increase of 12.1 percent was assisted by the opening in April, 1978 of a new Food City in Bedford, Nova Scotia, and expansion of the customer base.

Codville Distributors' increase in sales of 18.5 percent was above average due to aggressive marketing and additional business resulting from a strike at a major chain competitor.

The institutional group recorded a sales increase of 16.0 percent.

Hickeson-Langs Supply Company recorded increased sales of 23.1 percent. An improved marketing program together with increased sales to restaurants, fast food outlets and key accounts contributed to the better performance.

Expansion of the London cold storage plant completed in September, 1978 assisted Langs Cold Storage in obtaining a 14.2 percent sales gain.

The Ontario Produce Company sales increase of 6.4 percent was below inflation and reflected reduced vol-

ume and change in product mix resulting from resistance to high prices of imported perishables. This division has two wholesale produce operations at the Ontario Food Terminal, a vegetable packaging plant in Bradford, and a mushroom farm at Pickering.

General merchandise includes Towers Department Stores, Kent Drugs Limited, the restaurant division and gas bars. Sales of this group were up 8.8 percent.

Towers Department Stores sales growth of 8.9 percent reflected a new marketing program implemented last year.

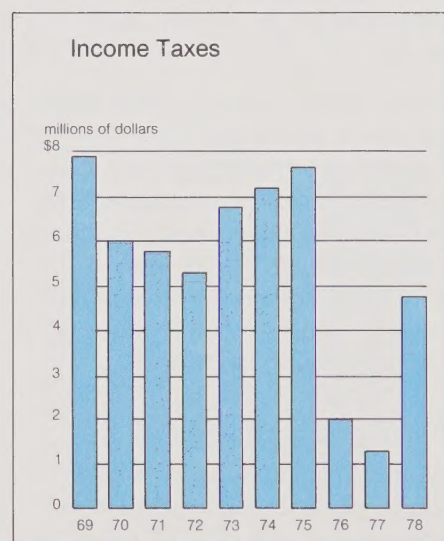
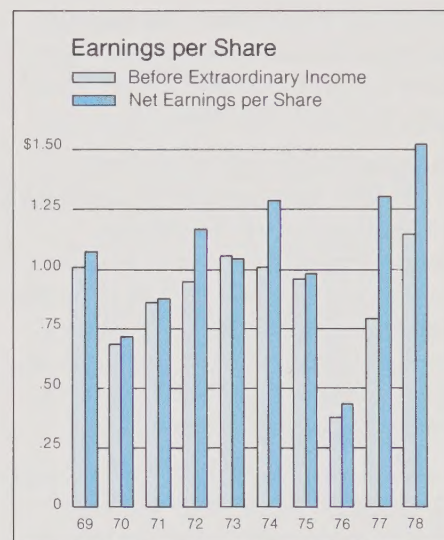
The Restaurant Division had a modest sales increase primarily because of the closing of an unprofitable free-standing restaurant towards the end of the previous year.

Kent Drugs Limited made further progress with a 9.6% sales gain.

Earnings

Earnings from operations of \$7,766,000 (\$1.15 per share) were 48% above last year's restated \$5,233,000 (78¢ per share). After extraordinary items, net earnings amounted to \$10,283,000 (\$1.52 per share) compared with restated \$8,874,000 (\$1.31 per share) in 1977.

During the year the Company retroactively changed its method of determining the value of department store



and food inventories. This had the effect of reducing earnings for the year by \$226,000 and the previous year by \$397,000 (Note 11).

All operating divisions reported increased earnings with general merchandise showing the largest improvement. Earnings in the previous year included \$1,738,000 (26¢ per share) from equity in net earnings of Consumers Distributing Company (National) Limited, sold at the end of the previous year.

Interest expense of \$11,804,000 was \$1,882,000 higher than last year due to rising bank rates and the discontinuation of capitalization of carrying charges on certain vacant lands.

Extraordinary items included gains on sale of Coinamatic Laundry Equipment Limited of \$6,097,000; sale of a portion of the shares held in Consumers Distributing Company Limited of \$1,621,000; less \$5,376,000 related to the carrying value of Décarie Square Shopping Centre in Montreal (Note 10).

Financial Position

Working capital of \$45,016,000 (\$6.67 per share) compared with restated \$14,996,000 (\$2.22) at the previous year end. Details of changes are shown on page 20.

Inventories of \$107,154,000 were 7.4% higher than a year ago due to higher sales, inflation and the opening of new stores less the disposition of Coinamatic Laundry Equipment Limited.

Capital expenditures of \$10,635,000 were used to upgrade retail food and department stores and add 380,000 cubic feet to the London, Ontario freezer plant.

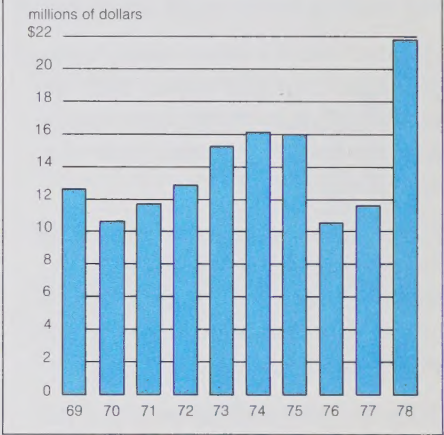
Bank indebtedness of \$26,197,000 was \$21,987,000 less than last year.

Long term debt increased by \$4,501,000 during the year, principally because of increasing bank term debt from \$5,000,000 to \$10,000,000. A 20 year 10¾% mortgage for \$14,000,000 secured on the Sudbury City Centre Shopping Centre replaced a term bank loan of \$13,000,000. A mortgage of \$1,500,000 was placed on the London freezer plant for a term of 20 years with an interest rate of 10½%.

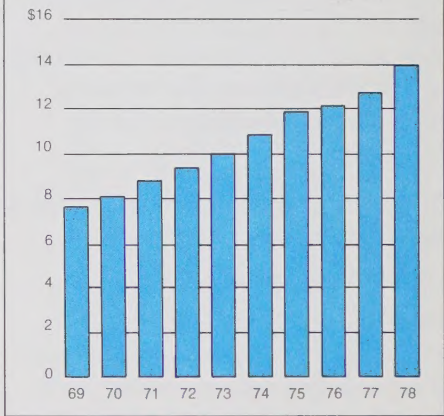
Dividend and Shareholders' Equity

Dividends of \$2,295,000 (34¢ per share) at the rate of 8½¢ per quarter were paid as in the previous year. A first quarter dividend of 10½¢ per share was declared payable April 2, 1979 to shareholders of record March 16, 1979. There were no changes in capital stock during the year. At January 27, 1979, Shareholders' Equity was \$94,614,000 or \$14.02 per share.

Cash Flow from Operations



Shareholders' Equity per Share



Expansion and Development

A 31,000 square foot Food City market was opened in Bedford, Nova Scotia and five Locomart units in Manitoba (previously 49% owned) became 100% owned. New interior decor was completed in 30 corporate stores.

The IGA Associate store modernization program saw 169 new interior and 195 new exterior decor treatments. A further 39 IGA units are scheduled for modernization in 1979.

In February 1979, major marketing changes were introduced in the Ontario Food Division to make IGA Associates fully competitive with the corporate chains. While it is still too early to assess the long range effects, initial results have been encouraging.

This two-phase program of competitive prices in an attractive shopping environment was initiated to ensure the continuing viability of Oshawa-supplied food retailers and protect their position as the leading independent grocers in Canada.

Food distribution facilities were improved by additional refrigerated capacity in the Dartmouth, Saskatoon and Toronto Queensway warehouses and the re-establishment of a distribution centre in Montreal to service Boni Soir and other convenience stores.

Langs Cold Storage added 380,000 cubic feet to its London freezer plant.

Towers opened a department store in Bedford, Nova Scotia, Kent Drugs Limited opened a Drug City Mart and the restaurant division added four units.

1979 expansion plans include four Drug City units, a Towers store, a number of IGA markets and a 262,000 square-foot head office and distribution centre for Codville Distributors in Winnipeg.

Coinamatic Laundry Equipment Limited

Oshawa's 90 percent interest in Coinamatic Laundry Equipment Limited in the United Kingdom was sold during the year for \$9,737,564 cash. Sales and earnings to November 8, 1978 were included in the year's results. The after tax gain of \$6,097,000 on sale of this subsidiary is reflected in extraordinary items.

Real Estate Division

The Oshawa Group Limited has substantial real estate holdings. At January 27, 1979, fixed assets less accumulated depreciation amounted to \$66,466,000. Mortgages and other long term debt associated with these properties was \$51,701,000.

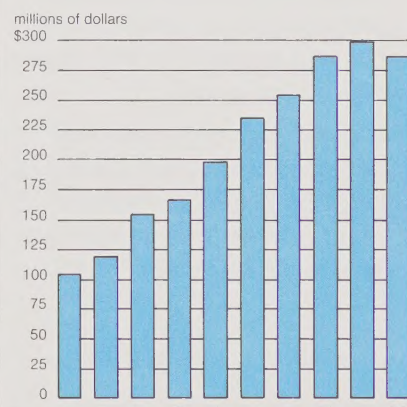
A Trend In Food Retailing

Figures published in February, 1979 by Canadian Grocer, a Maclean-Hunter magazine, confirmed that for the first time in many years the food independents' share of the Canadian market improved in 1978 while the chains' share declined—from 60.1% to 59.9%.

Amortization and Depreciation



Total Assets



Assuredly the change was small. But it is substantially significant for it represents a reversal of a long-standing trend and indicates both a bottoming out in the decline of independents and a new thrust for organized independents in the years ahead.

A number of discernible factors contributed to the change. The period of greatest growth for the chains occurred during the years of the home building boom in the larger Canadian centres. When home construction declined there were fewer opportunities for new supermarkets in urban areas. Moreover rising capital and operating costs restricted chain growth to larger, high-volume stores which could be profitable only in densely populated areas. Once such areas reached the saturation point of supermarket development, it was not unreasonable to anticipate a decline in chain growth.

At the same time, high operating costs resulted in reduced viability of smaller chain units with the result that many of these were closed and then re-opened by independents

who continue to prove they can profit in smaller owner-operated stores.

There has occurred some chain expansion into smaller centres which could support larger food markets but for the most part these markets are still dominated by the independent local entrepreneur.

In Quebec, the growth of independents was also aided by a government decision to allow the sale of wine in all but chain-operated food stores.

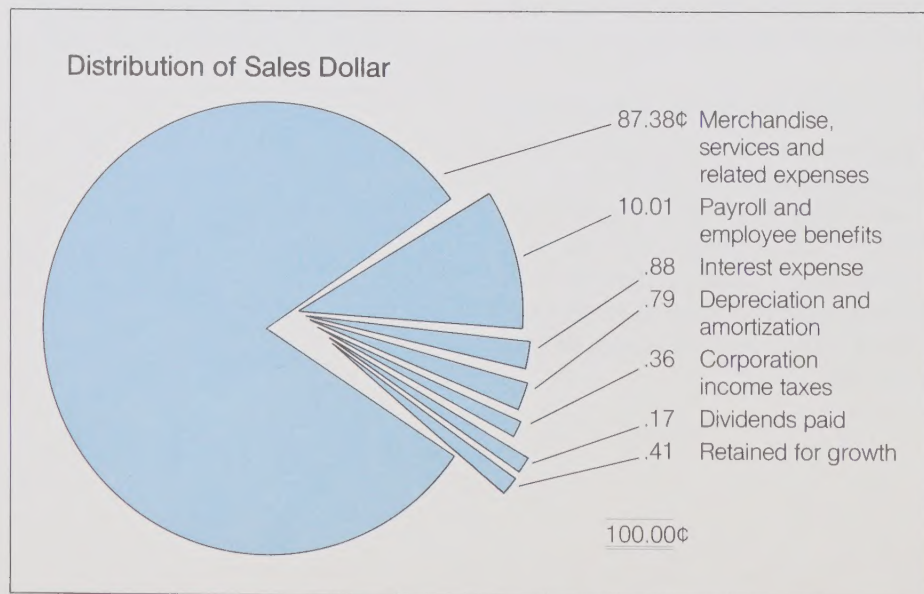
Outlook

A continuing inflationary environment has changed consumer spending patterns. Resistance to higher prices has encouraged increased feature pricing, heavier advertising and preference for lower priced merchandise. Improved facilities in Oshawa's corporate and franchised stores together with a new program to keep dealers competitive with the chains should improve results in the food group. Towers, being a discount department store chain should

benefit from the consumers' demand for lower prices and higher values. While the first quarter of 1979 will not match last year's first quarter because of competitive conditions and investment in new programs, it is expected that results for the full year will exceed those of the previous year.

Our business depends on its customers, suppliers, staff, management and shareholders. We deeply appreciate their continued support and cooperation.

Ray D. Wolfe
Chairman and President



Ten Year Comparative Summary

(in thousands of dollars)

Year Ended	Sales	Amortization and Depreciation	Income Taxes **	Earnings Before Extraordinary Income **	Earnings Per Share Before Extraordinary Income ***	Earnings Before Extraordinary Income as a % of sales **	Net Earnings **	Net Earnings Per Share *** †	Cash Flow From Operations **	Total Dividends	Dividends Per Share	Reinvested in Business **
Jan. 27, 1979	\$1,336,784	\$10,585	\$4,801	\$7,766	\$1.15	.58	\$10,283	\$1.52	\$21,858	\$2,295	34.0¢	\$7,988
Jan. 28, 1978	1,205,805	10,027	1,346	5,233	.78	.43	8,874	1.31	11,679	2,295	34.0	6,579
Jan. 22, 1977	1,077,575	8,629	2,031	2,578	.38	.24	2,957	.44	10,501	2,295	34.0	662
Jan. 24, 1976	1,023,857	8,135	7,699	6,456	.96	.63	6,685	.99	16,062	2,295	34.0	4,390
Jan. 25, 1975	866,518	7,243	7,223	6,969	1.01	.80	8,895	1.28	16,172	2,338	34.0	6,557
Jan. 26, 1974	697,583	5,976	6,821	7,448	1.06	1.07	7,410	1.05	15,429	2,394	34.0	5,016
Jan. 27, 1973	600,385	7,485	5,294	6,685	.95	1.11	8,234	1.17	12,921	2,110	30.0	6,124
Jan. 22, 1972	490,381	6,493	5,756	6,077	.87	1.24	6,154	.88	11,705	1,748	25.0	4,406
Jan. 23, 1971	469,771	6,104	6,034	4,844	.69	1.03	5,052	.72	10,671	1,747	25.0	3,305
Jan. 24, 1970	445,175	5,061	7,908	7,020	1.01	1.58	7,489	1.08	12,710	1,528	22.0	5,961

Year Ended	Shares * †	Shareholders' Equity **	Shareholders' Equity Per Share *** †	High-Low Stock Price	Total Assets **	Current Assets **	Current Liabilities **	Working Capital **	Current Ratio **	Salaries, Wages, Benefits	Number of Regular Employees At Year End
Jan. 27, 1979	6,749,904	\$94,614	\$14.02	9 - 4%	\$287,925	\$161,257	\$116,241	\$45,016	1.39:1	\$133,819	6,768
Jan. 28, 1978	6,749,904	86,626	12.83	5½- 3%	299,570	150,588	135,592	14,996	1.11:1	127,447	6,919
Jan. 22, 1977	6,749,904	81,799	12.12	5%- 3	286,832	137,410	124,105	13,305	1.11:1	112,606	6,909
Jan. 24, 1976	6,749,904	80,397	11.91	6¾- 4	254,213	130,824	119,081	11,743	1.10:1	102,967	7,338
Jan. 25, 1975	6,931,772	75,818	10.94	8 - 3%	235,744	115,251	107,858	7,393	1.07:1	85,139	6,910
Jan. 26, 1974	7,041,816	70,559	10.02	11%- 6	199,141	95,847	78,839	17,008	1.22:1	69,424	6,169
Jan. 27, 1973	7,024,990	66,105	9.41	14¾-10¼	168,832	75,464	58,183	17,281	1.30:1	57,920	6,246
Jan. 22, 1972	6,991,515	61,243	8.76	14%- 8¾	156,303	59,721	43,976	15,745	1.36:1	50,169	5,602
Jan. 23, 1971	6,981,908	56,704	8.12	25½- 9½	120,274	57,261	50,067	7,194	1.14:1	46,881	6,316
Jan. 24, 1970	6,942,502	53,206	7.67	36%-22	103,732	47,139	38,611	8,528	1.22:1	40,794	7,011

* Combined Class A and Common.

† Net Earnings Per Share and Shareholders' Equity Per Share have been calculated on the average number of shares outstanding during the year rather than on the shares outstanding at the end of the year.

** The comparative figures have been restated to give effect to income tax adjustments of prior years and retroactive changes in accounting policies with respect to inventories.

Oshawa's Canadian Operations



Manitoba, Saskatchewan & Northwestern Ontario

IGA Associates	95
Other Franchise Food Markets	374
Company-owned Food Markets	12
Non-affiliated Food Markets	963
Distribution Centres	7

Ontario

IGA Associates	137
Other Franchise Food Markets	47
Company-owned Food Markets	61
Non-affiliated Food Markets	53
Discount Department Stores	31
Drug Marts	14
Pharmacies	24
Health & Beauty Aid Stores	5
Restaurants & Snack Bars	45
Gas Bars	5
Distribution Centres	10

Quebec

IGA-Boniprix Associates	90
Other Franchise Food Markets	140
Company-owned Food Markets	18
Non-affiliated Food Markets	235
Discount Department Stores	9
Restaurants & Snack Bars	14
Gas Bar	1
Distribution Centres	3

Atlantic Provinces

IGA Associates	37
Company-owned Food Markets	5
Non-affiliated Food Markets	128
Combination Food & Department Stores	2
Discount Department Stores	3
Drug Mart	1
Restaurants & Snack Bars	11
Distribution Centres	2

● Distribution Centres

. . . profile of a company



Oshawa is a Canadian company engaged primarily in the wholesale distribution of food products. The Company serves 2,400 food markets in seven provinces of which 359 are franchised to IGA Associates operating and advertising under a common name for greater consumer recognition; 561 operate under other franchises and 96 are company owned. Oshawa also operates chains of department stores, drug marts, restaurants and gas bars, an institutional food company, three produce wholesale houses, a mushroom farm, two commercial frozen storage plants, a dispenser division, a laundry and through its real estate division, owns shopping centres and land for future development.

The Company was founded in 1911 as Ontario Produce Company by brothers Max and Maurice Wolfe and within a few years was firmly established as an importing, exporting, trading and consignment house, supplying wholesalers, retailers and institutional customers with fruit and vegetables.

When the Company's principal customers, the growing corporate food chains, established their own produce supply shortly after World War Two, an alliance was forged with independent grocers, creating a new marketing force that would dramatically restructure food retailing in Canada.

The Company purchased Oshawa Wholesale Limited in Oshawa, Ontario in 1949 to obtain a full range of grocery, tobacco and confectionery products and shortly after acquired the Independent Grocers Alliance franchise for South Central Ontario. Oshawa Wholesale's 750 customers were then offered a program through which they could buy, advertise, merchandise and sell under a single banner and 49 stores with a combined annual retail volume of less than \$5,000,000 accepted. It was enough to launch IGA in Canada and provide the Company with a new plateau from which to build.

Growth was accelerated in 1959 when Oshawa absorbed its parent, The Ontario Produce Company and issued Class A shares to the public. Two years later the Company opened Canada's first discount food market, in 1963 entered the discount department store field and shortly thereafter through acquisitions, extended operations into other provinces and other fields of activity.

Through pioneering merchandising and operating methods, Oshawa has grown into a unique Canadian wholesale-retail enterprise. The following pages illustrate its diversity, size and what it is that makes Oshawa unique.

Franchise Food Markets

IGA Markets

While Oshawa has expanded in other directions, the principal thrust of its business continues to be supplying progressive IGA independents in six provinces with all of their needs and a wide range of services. This support has enabled IGA Associates to maintain a competitive position in food retailing. Through a recently introduced store remodelling program, IGA now offers consumers a shopping environment comparable to the corporate chains and in many Canadian centres is the leading food retailer in the community.

IGA-Boniprix

IGA-Boniprix is the franchise division of Hudon et Deaudelin Ltée in the province of Quebec. It was formed by combining the largest IGA markets with high volume Boniprix units and together they constitute an organization of independent markets capable of competing at any level of food retailing. IGA-Boniprix stores have been upgraded in line with the national IGA modernization program and are today an aggressive and viable force in the highly competitive Quebec market.

Other Franchise Groups

Oshawa divisions are principal suppliers to a large number of franchise food markets other than IGA. These stores, frequently smaller than IGA markets or located in communities not large enough to support an IGA unit, benefit from Oshawa's volume buying, merchandising and advertising assistance and retail counseling services. Many provide home delivery and other services not offered by larger food markets.

Convenience Stores

The growth of the neighborhood convenience store in the past decade has been the most dramatic of any food retailing segment in North America. Exempt from hours of sale legislation which restrict traditional food markets, the convenience or milk stores have proliferated at a remarkable rate. From a zero start, within a few years Oshawa has developed a brisk and accelerating business supplying these franchise and chain units.



Retail Food Markets

Food City

The first Food City store, opened in 1961 in Metropolitan Toronto introduced the discount food market concept to Canada. Within 10 years, virtually every food chain had converted to food discounting. Food City stores, ranging from 14,000 to 40,000 square feet are now doing a brisk business in nearly every major Ontario market, in Nova Scotia and New Brunswick. These high volume units incorporate the most advanced retailing techniques and many feature in-store bakeries and pharmacies.

Les Aliments Hypermarché

Les Aliments Hypermarché stores in Quebec pioneered new technologies in food distribution and display. The Décarie Square unit in west, central Montreal has been described as the “complete supermarket” and the “flagship of Canadian food retailing”. Les Aliments Hypermarché stores offer broad varieties, large displays, freedom of movement in wide aisles and speedy check-out facilities. Public acceptance continues to grow.

Dutch Boy

Dutch Boy Food Markets is a unique Oshawa division with all retail units located in one metropolitan area, Kitchener-Waterloo, Ontario. Purchased in 1974, Dutch Boy Food Markets has maintained its own management team and merchandising style with a product mix catering to the specific tastes and demands of the region. These markets carry broader varieties of non foods than traditional food stores and one unit is combined with a full line hardware store.



General Merchandise

Department Stores

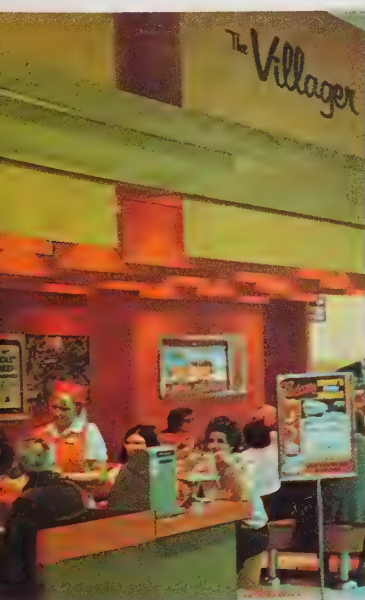
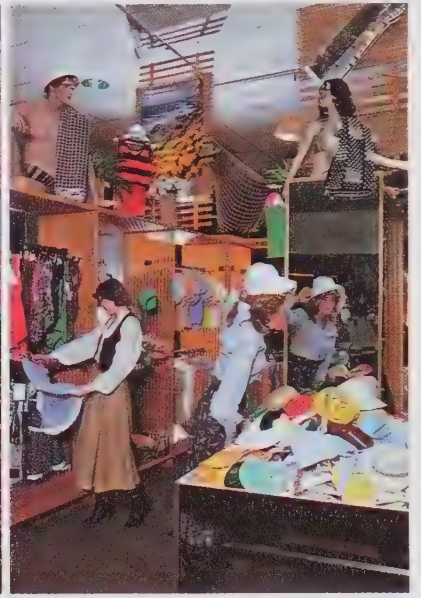
Towers Department Stores are located in Ontario, Nova Scotia, New Brunswick and Prince Edward Island. Quebec and Sudbury, Ontario department store units operate under the name of Bonimart. Towers and Bonimart are discount department stores, offering a wide variety of the important product needs of most consumers—family fashions, home furnishings, sporting goods and hardware, attractively displayed and competitively priced. Many are adjacent to Food City and Hypermarché markets and two are combination food and general merchandise stores.

Drug Marts and Pharmacies

Kent Drugs Limited operates promotional drug marts under the name of Drug City, pharmacies in Towers Department stores and Stripe Health and Beauty Aid outlets. Drug City Marts contain complete pharmacies and offer a broad range of attractively priced cosmetics, toiletries and related products.

Restaurants

Oshawa's restaurant division operates cafeterias, restaurants, snack bars and specialty food kiosks in Ontario, Quebec and the Atlantic Provinces. Nearly all are located in high traffic shopping centre or department store locations and emphasis is on quality, value and service. Versatility of the restaurant division provides custom-designed facilities for any shopping centre.





Supply Depots

Through 22 distribution centres which range from the 330,000 square-foot semi-automated grocery warehouse near Toronto to small regional centres in distant locations such as Thompson, Manitoba and Red Lake, Ontario, Oshawa is one of Canada's principal distributors of food and general merchandise. A 262,000 square-foot centre under construction in Winnipeg will be the latest addition to its distribution network.

Institutional Food Service

Hickeson-Langs Supply Company Limited and Midland Fruit Co. specialize in supplying hotels, restaurants, caterers, hospitals, schools and even mining and lumber camp operations in the far north.

Through The Ontario Produce Company and The White and Company in Toronto and Midland Fruit Co. in Winnipeg, Oshawa is one of Canada's largest produce wholesalers. Dominion Mushroom Company produces 3,000,000 pounds of fresh mushrooms annually at its Pickering, Ontario farm. Bradford Packaging Centre, a vegetable packaging plant near Ontario's Holland Marsh, serves domestic and export markets.

Langs Cold Storage with 3,173,000 cubic feet of frozen storage in Hamilton and London, Ontario, provides fruit, vegetable, meat and juice processors with blast freezing and commercial cold and frozen storage facilities. Lang's Hamilton facility is also the site of the Company's central meat cutting plant where beef is broken into sub-primal cuts for distribution to IGA and Food City stores in Ontario.

In Addition . . .

A Company-owned laundry supplies a rental service for linens, uniforms and work clothes to retail stores and industrial plants, and an automotive division operates gasoline service bars in Ontario and Quebec.

These are the divisions and services that comprise The Oshawa Group Limited, that make it a unique Canadian operation and one of the nation's top ten merchandisers.

Consolidated Statement of Earnings

(in thousands of dollars)	Year Ended January 27, 1979 (52 Weeks)	Year Ended January 28, 1978* (53 Weeks)
SALES (note 6)	\$1,336,784	\$1,205,805
COST OF SALES AND EXPENSES		
Cost of sales and expenses before the undernoted items:	1,303,797	1,182,651
Interest (note 7)	11,804	9,922
Depreciation	10,441	9,812
Amortization of goodwill	98	98
	1,326,140	1,202,483
	10,644	3,322
Interest and dividends earned	1,860	1,206
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	12,504	4,528
Income taxes (note 8)	4,801	1,346
EARNINGS FROM OPERATIONS	7,703	3,182
Equity in net earnings of Consumers Distributing Company (National) Limited	—	1,738
Equity in net earnings of corporate and other joint ventures	63	313
EARNINGS BEFORE EXTRAORDINARY ITEMS	7,766	5,233
Extraordinary items (note 10)	2,517	3,641
NET EARNINGS	\$ 10,283	\$ 8,874
Earnings per share before extraordinary items	\$1.15	\$0.78
Earnings per share	\$1.52	\$1.31
Number of shares outstanding	6,749,904	6,749,904

Consolidated Statement of Retained Earnings

(in thousands of dollars)

BALANCE, BEGINNING OF YEAR AS ORIGINALLY REPORTED	\$ 28,822	\$ 21,846
Less: Prior years' adjustments (note 11)		
Income taxes	506	506
Changes in accounting policies	1,686	1,289
	2,192	1,795
BALANCE, BEGINNING OF YEAR AS RESTATED	26,630	20,051
Add: Net earnings for year	10,283	8,874
	36,913	28,925
Less: Dividends—Class A shares	2,237	2,237
—Common shares	58	58
	2,295	2,295
BALANCE, END OF YEAR	\$ 34,618	\$ 26,630

See summary of significant accounting policies and notes to the Consolidated Financial Statements.

*Restated, see note 11.

Consolidated Balance Sheet

(in thousands of dollars)

January 27, 1979 January 28, 1978*

Assets

CURRENT ASSETS

Cash	\$ 937	\$ 923
Marketable securities at cost (market value 1979, \$4,717,000; 1978, \$509,000)	2,495	509
Accounts receivable	40,763	38,089
Loans and mortgages receivable—current portion	2,616	4,191
Inventories	107,154	99,782
Real estate held for sale	2,053	3,127
Prepaid expenses	5,239	3,967
	161,257	150,588

INVESTMENTS AND OTHER ASSETS

Loans and mortgages receivable	4,355	7,168
Investments (note 1)	2,219	5,593
Deferred rent and financing costs	397	497
	6,971	13,258

FIXED ASSETS (note 2)

Land, buildings, equipment and leasehold improvements	192,355	193,846
Less: Accumulated depreciation	72,945	58,507
	119,410	135,339

GOODWILL

	287	385
	\$ 287,925	\$ 299,570

See summary of significant accounting policies and notes to the Consolidated Financial Statements.

*Restated, see note 11.

(in thousands of dollars)

January 27, 1979 January 28, 1978*

Liabilities

CURRENT LIABILITIES

Bank indebtedness and notes payable (note 3)	\$ 26,197	\$ 48,184
Accounts payable and accrued liabilities	84,648	81,581
Income taxes payable	464	2,923
Deferred income taxes	2,181	1,055
Current portion of long term debt	2,751	1,849
	116,241	135,592

LONG TERM DEBT (note 4)	75,157	70,656
-------------------------	---------------	--------

DEFERRED INCOME TAXES	1,913	6,405
-----------------------	--------------	-------

MINORITY INTEREST IN SUBSIDIARY	—	291
---------------------------------	----------	-----

Shareholders' Equity

CAPITAL STOCK (note 5)

Authorized		
11,906,100 Class A non-voting shares, without par value		
912,000 Common shares, without par value		
Issued		
6,578,528 Class A shares	59,033	59,033
171,376 Common shares	44	44
	59,077	59,077

CONTRIBUTED SURPLUS	919	919
---------------------	------------	-----

RETAINED EARNINGS	34,618	26,630
-------------------	---------------	--------

	94,614	86,626
	\$ 287,925	\$ 299,570

* Restated, see note 11.

Approved on behalf of the Board
Ray D. Wolfe, Director
Philip F. Connell, F.C.A., Director

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)		Year Ended January 27, 1979 (52 Weeks)	Year Ended January 28, 1978* (53 Weeks)
Source of Working Capital			
OPERATIONS			
Earnings before extraordinary items	\$	7,766	\$ 5,233
Items not affecting funds from operations:			
Depreciation		10,441	9,812
Amortization of goodwill		98	98
Amortization of deferred expenses		46	117
Deferred income taxes		3,570	(1,530)
Equity in net earnings of Consumers Distributing Company (National) Limited		—	(1,738)
Equity in net earnings of corporate and other joint ventures		(63)	(313)
FUNDS FROM OPERATIONS		21,858	11,679
OTHER			
Sale of Coinamatic Laundry Equipment Limited net of working capital of \$1,029,000 and income taxes of \$150,000		8,312	—
Sale of shares in Consumers Distributing Company Limited less income taxes of \$545,000		2,592	—
Issue of long term debt		7,924	6,355
Sale of fixed assets		460	2,984
Decrease (increase) in loans and mortgages receivable		2,813	(830)
Decrease in investments		2,466	1,275
Sale of shares in Consumers Distributing Company (National) Limited		—	8,000
		46,425	29,463
Use of Working Capital			
Purchase of fixed assets		10,635	11,984
Repayment of long term debt		3,423	7,661
Acquisition of shares in Consumers Distributing Company Limited		—	3,000
Dividends		2,295	2,295
Sundry items		52	261
		16,405	25,201
INCREASE IN WORKING CAPITAL		30,020	4,262
WORKING CAPITAL, BEGINNING OF YEAR AS ORIGINALLY REPORTED		18,284	13,348
Less: Prior years' adjustments (note 11)		3,288	2,614
WORKING CAPITAL, BEGINNING OF YEAR AS RESTATED		14,996	10,734
WORKING CAPITAL, END OF YEAR	\$	45,016	\$ 14,996

See summary of significant accounting policies and notes to the Consolidated Financial Statements.

*Restated, see note 11.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of The Oshawa Group Limited and subsidiary companies.

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Retail food and department store inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation (note 11).

Real Estate Held For Sale

Real estate held for sale is valued at the lower of cost and net realizable value. Cost includes development expenses and carrying charges including applicable interest on general borrowings.

Fixed Assets and Depreciation

Major enlargements, remodellings and improvements are charged to the appropriate fixed asset accounts. The cost of maintenance and repairs which does not extend the life of the assets is charged against earnings.

Fixed assets are recorded at cost and are depreciated by the straight line method at rates sufficient to amortize the cost of the assets over their estimated useful life as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Buildings	20 to 40 years
Equipment	4 to 10 years
Leasehold improvements	term of lease plus first option to a maximum of 20 years

Financing Costs

Financing costs of the Series A Debentures are amortized over the terms of the Debentures.

Goodwill

Goodwill, which represents purchased goodwill and the excess of the cost of subsidiaries over the fair value of their net tangible assets at the dates of acquisition, is being amortized by the straight line method over its estimated useful life, not exceeding 40 years.

Development and Pre-opening Expenses

Development and pre-opening expenses of new stores are written off in the year of opening.

Sale of Stores and Properties

Gains and losses on the sale of stores and properties, other than warehouses and similar operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

Fiscal Year

The fiscal year of the Company ends on the fourth Saturday in January. The current fiscal year consists of 52 weeks. The previous fiscal year consisted of 53 weeks and the next 53 week fiscal year will end on January 28, 1984.

Notes to the Consolidated Financial Statements

1. INVESTMENTS

	1979	1978
	(in thousands)	
Shares in Consumers Distributing Company Limited, at cost	\$ —	\$ 3,000
Investments in corporate and other joint ventures, equity method	1,519	1,729
Sundry investments, at cost	700	864
	\$ 2,219	\$ 5,593

2. FIXED ASSETS

	1979	1978
	(in thousands)	
Land	\$ 20,769	\$ 21,020
Buildings	77,388	76,680
Equipment	78,212	80,910
Leasehold improvements	15,986	15,236
	192,355	193,846
Less: Accumulated depreciation	72,945	58,507
	\$119,410	\$135,339

3. BANK INDEBTEDNESS AND NOTES PAYABLE

Bank indebtedness and notes payable to the extent of \$13,483,000 are secured by general assignments of book debts.

4. LONG TERM DEBT

	1979	1978
	(in thousands)	
Bank indebtedness	\$ 34,000	\$ 42,000
Mortgages and notes payable	28,408	13,505
Series A Debentures	15,500	17,000
	77,908	72,505
Less: Current portion	2,751	1,849
	\$ 75,157	\$ 70,656

PRINCIPAL REPAYMENTS

Principal repayments on long term debt are as follows:

(fiscal year ending in) 1980	\$ 2,751
1981	2,156
1982	26,206
1983	3,313
1984	7,678
1985-2002	35,804
	\$ 77,908

BANK INDEBTEDNESS

The bank indebtedness consists of a loan of \$10,000,000 of which \$1,000,000 is payable each year from 1980 to 1983, the balance being payable in 1984; and a loan of \$24,000,000 payable in 1981 secured by a mortgage on a shopping centre. These loans bear interest at rates varying from prime to prime plus 2½%.

MORTGAGES AND NOTES PAYABLE

These are secured by certain real estate, bear interest at an average rate of 10.1% per annum and provide for principal repayments from 1979 to 2002.

SERIES A DEBENTURES

These debentures are secured by a floating charge on the undertaking and assets of the Company and consist of the following:

Description	Interest Rate	Maturity Date	1979	1978
			(in thousands)	
Series A Serial Debentures	8¼%	June 15, 1979	\$ 1,000	\$ 2,000
Series A Sinking Fund Debentures	9¼%	June 15, 1991	14,500	15,000
			\$15,500	\$17,000

The Serial Debentures are not redeemable prior to maturity. The Company has covenanted to retire \$9,500,000 principal amount Sinking Fund Debentures prior to maturity as follows:

1980 to 1982	\$ 500,000 in each year
1983 to 1990	1,000,000 in each year

In addition to the mandatory sinking fund payments referred to above, the Company has the non-cumulative right to retire up to \$500,000 principal amount of Sinking Fund Debentures in each of the years 1979 to 1985.

5. CAPITAL STOCK

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 1¼¢ per share in priority to payment of dividends on the common shares.

6. SALES

Sales for each of the major segments of the Company's business were as follows:

	1979		1978	
	Amount	%	Amount	%
	(in thousands)		(in thousands)	
Wholesale Food	\$ 600,834	45	\$ 542,828	45
Retail Food	375,222	28	334,913	28
Institutional Food	78,703	6	67,842	5
General Merchandise	269,860	20	248,087	21
Other	12,165	1	12,135	1
	\$1,336,784	100	\$1,205,805	100

7. INTEREST EXPENSE

	1979		1978	
	(in thousands)		(in thousands)	
Interest on long term debt	\$ 7,652	\$ 6,799		
Other interest	4,295	4,520		
	11,947	11,319		
Less: Interest capitalized to cost of real estate	143	1,397		
Interest expense for year	\$ 11,804	\$ 9,922		

8. INCOME TAXES

The 3% inventory allowance for income tax purposes has reduced income taxes otherwise applicable to earnings from operations by \$1,481,000 (22¢ per share); 1978, \$1,228,000 (18¢ per share) and to earnings reported on an equity basis by \$5,000; 1978, \$210,000 (3¢ per share).

9. SALE OF COINAMATIC LAUNDRY EQUIPMENT LIMITED

On November 8, 1978 the Company sold its interest in its foreign subsidiary, Coinamatic Laundry Equipment Limited.

The Company's share of the earnings of this subsidiary to the date of sale is included in the current year's earnings and amounts to \$705,000 (1978, \$610,000).

10. EXTRAORDINARY ITEMS

	1979	1978
	(in thousands)	
Gain on sale of Coinamatic Laundry Equipment Limited, a foreign subsidiary, less income taxes of \$150,000	\$6,097	\$ —
Gain on sale of shares of Consumers Distributing Company Limited less income taxes of \$545,000	1,621	—
Reduction in carrying value of Décarie Square Shopping Centre in Montreal to reflect estimated economic value less related income taxes of \$5,144,000	(5,376)	—
Gain on sale of 50% interest in Consumers Distributing Company (National) Limited	—	3,826
Other items	175	(185)
	\$2,517	\$3,641

11. PRIOR YEARS' ADJUSTMENTS

During the year the Company retroactively changed the method of determining the cost of inventories whereby rebates and allowances which had previously been taken into income at the time of purchase are now being applied to inventory, and also the basis of applying the retail method to determine the cost of department store inventories.

These changes had the effect of reducing net earnings by \$226,000 in 1979, \$397,000 in 1978 and \$1,289,000 for 1977 and prior years.

The comparative figures have been restated to give effect to the retroactive changes in accounting policies referred to above and to reflect income tax adjustments of \$506,000 applicable to years prior to 1978. Certain other minor changes have been made to reclassify the comparative figures for 1978 to conform with the current year's presentation.

12. LEASES

The total minimum rentals payable for store locations, office and warehouse facilities and equipment (exclusive of additional amounts based on percentage of sales, taxes, insurance and other occupancy charges) under long term leases in effect at January 27, 1979 for each of the periods shown below are as follows:

(fiscal year ending in)	(in thousands)
1980	\$ 16,838
1981	16,431
1982	15,981
1983	14,864
1984	14,200
after 1984	142,970

It is expected that rental revenue of \$4,077,000 will be received in the fiscal year ending January 26, 1980 from locations which have been sublet.

13. PENSION PLANS

Pension costs included in the consolidated statement of earnings represent current service contributions. There is no unfunded past service liability.

14. CONTINGENT LIABILITIES AND COMMITMENTS

- (a) The Company has guaranteed long term leases of Consumers Distributing Company Limited having minimum annual rentals of \$1,156,000. The Company has been given a debenture by Consumers Distributing Company Limited as security against any liabilities or costs which may be incurred under these guarantees.

- (b) The Company has guaranteed one-half of any deficiency between net rental income and the payment of principal, interest and taxes required under a mortgage loan having a balance of \$8,292,000 at January 27, 1979. The Company has received an indemnity against any losses which may be suffered under this guarantee.
- (c) A legal action claiming damages for \$1,286,000 has been instituted against the Company for an alleged failure to honor a commitment to lease in a shopping centre. In the opinion of counsel, based on the facts now known, the most probable outcome of this action if it were to proceed to trial would be the dismissal of plaintiff's action.
- (d) Commitments in connection with the construction of a new distribution centre in Manitoba amount to approximately \$4,900,000.

15. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration during the year of directors and senior officers, as defined by The Business Corporations Act, Ontario, was \$1,600,000 (1978—\$1,745,000).

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 27, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For The Oshawa Group Limited and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 27, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting policies referred to in note 11 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada
April 10, 1979

Wm. Eisenberg & Co.
Chartered Accountants

Directors, Management and Salient Data

Max Wolfe
Honorary Chairman of the Board

Directors

Ray D. Wolfe
Chairman of the Board
William L. Atkinson
*Philip F. Connell, F.C.A.
Murray C. Goldman
*Charles Perrault, M. Eng.
*Albert Shifrin, Q.C.
*Arthur J. R. Smith, Ph.D., D.U.C., LL.D.
Harold J. Wolfe
Harvey S. Wolfe
Jack B. Wolfe
*Audit Committee

Officers

Ray D. Wolfe
Chairman and President
Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer
Leonard Eisen, C.A.
Treasurer
Harold J. Wolfe
Secretary

Corporate Management

Ray D. Wolfe
Chairman and President
Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer
Allister P. Graham
Group Vice President Food Divisions
William H. Holman
Senior Vice President Operations
Jack B. Wolfe
Group Vice President Institutional Food
E. Leonard Besler, C.A.
Corporate Controller
Charles Comrie
Vice President Personnel
Sam Crystal
Vice President Public Affairs
Leonard Eisen, C.A.
Treasurer
Murray C. Goldman
Vice President Development
G. Michael Moffat
Vice President Planning
Harold J. Wolfe
General Counsel

Operating Divisions

Wholesale and Retail Food

BOLANDS
Dartmouth, Nova Scotia
Leif Christensen
President and General Manager
CODVILLE DISTRIBUTORS
Winnipeg, Manitoba
Max Hatch
President and General Manager
DUTCH BOY FOOD MARKETS
Kitchener, Ontario
Barry Humphrey
General Manager
HUDON ET DEAUDELIN LTÉE
Montreal, Quebec
Jean-Guy Deaudelin
President and General Manager
LES ALIMENTS HYPERMARCHÉ
Montreal, Quebec
Barry Perzow
Vice President and General Manager
ONTARIO FOOD DIVISION
Toronto, Ontario
Allister P. Graham
Vice President and General Manager

General Merchandise

KENT DRUGS LIMITED
Toronto, Ontario
Ab Flatt
President
RESTAURANT DIVISION
Toronto, Ontario
Redmond J. Langan
Vice President and General Manager
TOWERS DEPARTMENT STORES
Toronto, Ontario
William L. Atkinson
Chairman and Chief Executive Officer
Jack Genser
President

Institutional

BRADFORD PACKING CENTRE
Bradford, Ontario
Glen Henderson
Manager
DOMINION MUSHROOM COMPANY
Pickering, Ontario
Nate Tickner
Manager
HICKESON-LANGS SUPPLY COMPANY
LIMITED
Toronto, Ontario
Charles Davies
President and General Manager

LANGS COLD STORAGE

Hamilton, Ontario
Ken Edworthy
General Manager
MODEL LAUNDRY
Toronto, Ontario
Carlo Bryce
General Manager
THE ONTARIO PRODUCE COMPANY
Toronto, Ontario
Vern T. Barber
President
THE WHITE & COMPANY
Toronto, Ontario
Vance Graham
Manager

Services

GAS BARS
Toronto, Ontario
Don Lamont
General Manager

Real Estate

Murray C. Goldman
Vice President Development

Registrar and Transfer Agents

Class A Shares and Series A Debentures,
The Canada Trust Company,
Toronto, Montreal, Calgary, Vancouver
and Regina

Auditors

Wm. Eisenberg & Co., Toronto

Bankers

Canadian Imperial Bank of Commerce
Mercantile Bank of Canada
Bank of Montreal
Bank of Nova Scotia
Toronto-Dominion Bank

Listed On

Toronto Stock Exchange
Montreal Stock Exchange

Head Office

302 The East Mall
Islington, Ontario
Canada
M9B 6B8

